

## Message Text

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ACTION EB-08

INFO OCT-01 EA-10 ISO-00 AGRE-00 CEA-01 CIAE-00  
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03  
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15  
STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01  
DOE-15 DOEE-00 XMB-02 /113 W  
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P 240846Z APR 78

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 667

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E.O. 11652: N/A

TAGS: ETRD, BEXP, XX

SUBJECT: INTERAGENCY TASK FORCE TO DEVELOP A NATIONAL EXPORT POLICY

REF: STATE 95673

SUMMARY: LACK OF AN EXPORT TRADITION, VACILLATING U.S. GOVERNMENT POLICY ON PROMOTING EXPORTS, AND RELATIVE UNPROFITABILITY ARE CAUSES OF WEAK U.S. EXPORTS. U.S. TAX OR OTHER MEASURES RECENTLY TAKEN OR PROPOSED, WHATEVER THEIR MERITS ON OTHER GROUNDS, HAVE ALL TENDED TO DECREASE PROFITABILITY, SUGGESTING THE NEED FOR COMPENSATION. TAX INCENTIVES AND/OR PENALTIES MIGHT BE CONSIDERED. U.S. FIRMS LACK HELP IN MARKETING OVERSEAS WHICH OTHER COUNTRIES OFFSET BY PROMOTING LARGE TRADING FIRMS; THE U.S. SHOULD CONSIDER PROMOTING THEM AS WELL. THE EXPORT-IMPORT BANK AND OPIC ARE VERY HELPFUL BUT THE RECUT IN PL 480 FOR KOREA MAY COST THE U.S. ITS DOMINATION OF THE KOREAN MARKET FOR FOOD AND FEEDGRAINS AND COTTON. ADDITIONAL PERSONNEL AND PERHAPS A LARGE TRADE CENTER WOULD BE HELPFUL IN EXPANDING U.S. EXPORTS TO KOREA. OTHER EMBASSIES MIGHT FIND SMALL LOW-COST TRADE CENTERS, SUCH AS KOREA NOW HAS, A USEFUL

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ADDITION TO THEIR PROMOTION EFFORTS. END SUMMARY.

1. WE ARE DELIGHTED AT THE OPPORTUNITY TO OFFER SUGGESTIONS FOR CONSIDERATION BY THE CABINET-LEVEL TASK FORCE. IN OUR VIEW, WHAT IS NEEDED IS A CONCERTED STRATEGY AIMED PRIMARILY AT THE COUNTRIES PRESENTING MAJOR OPPORTUNITIES FOR MARKET EXPANSION. THE PROBLEMS THAT WE SEE ARE (A) IN THE U.S., AND

(B) HERE IN KOREA (BUT HAVE WIDER APPLICABILITY).

2. THE PROBLEMS IN THE U.S. START WITH THE LACK OF A U.S. EXPORT TRADITION. WHILE IT IS NOT TRUE OF ALL INDUSTRIES, EXPORTS FOR MANY ARE MARGINAL BECAUSE THEY DON'T CONTRIBUTE SIGNIFICANTLY TO PROFITS. FOR MANY OTHERS, EXPORT MARKETS ARE ONLY VIEWED AS OF SHORT-TERM INTEREST, TO BE EXPLOITED ON AN INF-AND-OUT BASIS, AS WHEN THE U.S. DOMESTIC MARKET IS SOFT.

3. VACILLATING USG POLICY HAS NOT HELPED. ONE YEAR WE CAMPAIGN FOR EXPORTS AND THE NEXT WE TALK ABOUT MORE NEUTRAL POLICIES AND THEN INCREASE THE TAXES ON OVERSEAS BUSINESSMEN, (SECTION 911) AND PROPOSE TO ABOLISH THE DISC'S. THERE MAY NEED TO BE AMENDMENTS TO EXISTING LAW, BUT WE DON'T INCREASE THE INCENTIVE TO EXPORT BY MAKING IT LESS PROFITABLE.

4. A MAJOR ELEMENT OF ANY CAMPAIGN, THEN, IS TO RAISE THE MARGIN OF PROFIT IN EXPORTING. THE EXCHANGE RATE HAS DONE THIS IN SOME MARKETS IN THE LAST TWO YEARS, BUT NOT IN MANY OTHERS. IN KOREA, IT HAS DONE SO ONLY TO THE EXTENT THAT IT HAS MADE JAPANESE EXPORTS LESS ATTRACTIVE AND THAT EFFECT HAS BEEN SLIGHT SO FAR, AS JAPAN HAS CONTINUED TO SELL EITHER AT A LOSS OR BY TIGHTENING ITS BELT AND REDUCING COSTS. WE WOULD SUGGEST THAT TAX INCENTIVES AND POSSIBLY LIMITED OFFICIAL USE

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PENALTIES FOR FAILURE TO EXPORT BE EXAMINED TO SEE WHETHER THESE ARE THE APPROPRIATE SOLUTION. SUCH A CARROT/STICK APPROACH, WHILE DRASTIC AND UNDOUBTEDLY UNPOPULAR, MIGHT BE WARRANTED BECAUSE OF SEVERITY OF B/P PROBLEM.

5. SIMILARLY, MANY COMPANIES FIND IT VERY EXPENSIVE TO ESTABLISH THEMSELVES IN A MARKET. THE INITIAL COSTS ARE CLEARLY BEYOND MANY SMALL FIRMS AND OTHERS ARE NOT WILLING TO MAKE THE INVESTMENT. WHILE SPECIAL LEGISLATION FOR SMALL FIRMS MIGHT BE WARRANTED, ANOTHER SOLUTION MAY BE TO PROVIDE INDUCEMENTS TO HAVE SMALL FIRMS USE LARGE TRADING FIRMS. JAPAN HAS USED LARGE TRADERS VERY SUCCESSFULLY IN ITS EFFORTS TO INCREASE EXPORTS, AS HAVE OTHER COUNTRIES. THE UNITED STATES GENERALLY DOES NOT. MANY BIG MANUFACTURING COMPANIES WHICH LACK PERMANENT RESIDENT REPRESENTATION IN A MARKET LIKE KOREA COULD ALSO USEFULLY USE LARGE TRADING COMPANIES, SINCE IN OUR EXPERIENCE HERE THESE BIG COMPANIES OFTEN FAIL TO COORDINATE WITHIN SECTIONS AND DON'T REALLY KNOW THE LOCAL SCENE OR HAVE GOOD CONTACTS. THE EMBASSY CAN HELP BUT MANY DON'T USE US AND OUR ABILITY TO SERVICE MORE PEOPLE IS LIMITED.

6. THE AVAILABILITY OF EXPORT-IMPORT BANK, PL 480 AND CCC

CREDIT AND OPIC GUARANTEES ARE VERY IMPORTANT TO U.S. EXPORTS. RECENT STEPS TO MAKE THE EXPORT-IMPORT BANK MORE AGGRESSIVE ARE WELCOME. IN KOREA'S CASE, WE WORRY THAT WHEN OPIC IS PHASED OUT, U.S. INVESTMENT WILL DROP AND EXPORTS INCIDENT TO THAT INVESTMENT WILL BE LOST. WE CONCLUDE THERE IS A SPECIAL CASE FOR OPIC INSURANCE BASED ON RISK OF WAR TO BE MADE AVAILABLE TO KOREA FOR YEARS AFTER IT REACHES THE PRESENT CUTOFF LEVEL OF \$1,000 GNP PER CAPITA.

7. U.S. AGRICULTURAL EXPORTS TO KOREA ARE A SPECIAL CASE, AS THE U.S. HAS HAD NEXT TO A MONOPOLY FOR FEED AND FOOD GRAINS AND COTTON. PL 480 AND CCC CREDIT FINANCED MUCH OF THESE IMPORTS AND BASED ON IT, ROKG POLICY HAS BEEN TO BUY AS MUCH AS POSSIBLE FROM THE U.S. U.S. AGRICULTURAL EXPORTS LIMITED OFFICIAL USE

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TO KOREA WERE OVER \$900 MILLION OR ABOUT 40 PERCENT OF OUR TOTAL EXPORTS TO KOREA IN 1977. ELIMINATION OF PL 480 AFTER THE PRESENT COMMITMENT MADE AS A PART OF THE SO-CALLED KENNEDY UNDERSTANDING IF COMPENSATORY ACTIONS ARE NOT TAKEN, COULD HERALD THE EROSION OF THE U.S. MARKET SHARE. WE HAVE PROPOSED A LONG-TERM SUPPLY UNDERSTANDING IN WHICH THE U.S. WOULD CONTINUE TO PROVIDE CREDIT, MOSTLY FROM THE CCC IN RETURN FOR RETAINING ITS MONOPOLY.

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 668

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THE ROKG HAS AGREED, BUT THE U.S. GOVERNMENT APPARENTLY HAS PROBLEMS WITH THE CONCEPT OF A LONG-TERM SUPPLY ARRANGEMENT.

8. EMBASSY COMMERCIAL PROGRAMS ARE IMPORTANT. THOUGH THEY CAN'T DO THE JOB UNLESS THE COMPANIES WANT TO EXPORT, THEY PROVIDE A RANGE OF SERVICES AND CAN BE VERY HELPFUL FOR FIRMS WHICH ARE NEW TO THE MARKET OR NOT PERMANENTLY REPRESENTED, AS WELL AS IN OTHER CASES. THE KOREAN ECONOMY AND MARKET ARE GROWING VERY RAPIDLY. THE OPPORTUNITIES WILL BE EVEN MORE GREATLY EXPANDED IN FUTURE YEARS BECAUSE OF THE KOREAN COMMITMENT TO IMPORT LIBERALIZATION WHICH SHOULD REMOVE THE EXTENSIVE SYSTEM OF CONTROLS OVER THE NEXT FEW YEARS AND GIVE FOREIGN COUNTRIES VIRTUALLY FREE ACCESS TO THE KOREAN MARKET. THUS, WE BELIEVE EMBASSY SERVICES COULD BE PROFITABLY EXPANDED IN KOREA WITH ADDITIONAL PERSONNEL. IN PARTICULAR, WE BELIEVE THAT GREATER USE OF KOREAN EMPLOYEES WOULD BE BENEFICIAL. WITH OUR PRESENT STAFF WE ARE LARGELY CONFINED TO PASSIVE REACTION TO OPPORTUNITIES THAT WALK IN SEEKING HELP. WE COULD DO MUCH MORE IF WE HAD THE STAFF TO PAY CALLS. SIMIARLY, OUR LIBRARY NEEDS FURTHER IMPROVEMENTS AND WE COULD ALSO USE PEOPLE IN BRANCH OPERATIONS IN PUSAN, KOREA'S SECOND LARGEST CITY.  
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9. THE EMBASSY IN SEOUL OPERATES ITS OWN TRADE CENTER LOCATED IN THE CHANCERY BUILDING. DIRECT SALES JUSTIFY THE RELATIVELY SMALL COST SINCE WE ARE ABLE TO SELL FLOOR SAMPLES THAT WOULD OTHERWISE BE BANNED UNDER CURRENT GOVERNMENT IMPORT REGULATIONS. MANY EXHIBITORS ALSO FIND THE CENTER ATTRACTIVE BECAUSE THEY CAN BRING DEMONSTRATION ITEMS IN WITHOUT PAYING CUSTOMS OR MAKING CUSTOMS DEPOSITS WHICH WOULD INCREASE THEIR COST PROHIBITIVELY. WE BELIEVE THIS TYPE OF CENTER WOULD BE ATTRACTIVE AND JUSTIFIED IN MANY OTHER MARKETS OF THE WORLD WHERE A FULL-FLEDGED CENTER IS NOT JUSTIFIED. ITS LOW INITIAL COST AND THE FACT THAT WE RUN IT RENT-FREE AT NO DIRECT COST (FEES PAY ALL OPERATING EXPENSES) MEAN THAT WE CAN KEEP IT EMPTY IF NECESSARY WITH NO OUTLAY BY THE USG.

10. WE IN SEOUL FIND THE TRADE CENTER OF GREAT USE IN THE COUNTRY COMMERCIAL PROGRAM BECAUSE IT PROVIDES THE VEHICLE AROUND WHICH WE CAN TAILOR A COOPERATIVE EFFORT WITH THE U.S. EXPORTER AND ITS LOCAL AGENT. WE FIND THAT WE OFTEN MAKE NEW CONTACTS ON SUCH OCCASIONS OR RENEW OLD ONES. PEOPLE WHO WOULD NEVER COME NEAR THE EMBASSY NORMALLY, FIND THERE ARE KNOWLEDGEABLE AND EXPERIENCED EMBASSY OFFICERS READY AND WANTING TO HELP THEM. ULTIMATELY, THE CENTER PROVIDES THE OCCASION FOR THE U.S. TO MAKE THE POINT THAT WE ARE PRODUCERS AND SELLERS OF GOODS WHICH

KOREANS USERS OR IMPORTERS MAY NEVER HAVE CONSIDERED LOOKING TO THE U.S. FOR.

11. FOR SEVERAL YEARS, THE DEPARTMENT OF COMMERCE HAS PROPOSED PLACING A FULL-FLEDGED TRADE CENTER IN SEOUL. THE EMBASSY HAS SUPPORTED THAT PROPOSAL BUT BUDGET AND DOUBTS ABOUT ITS EFFECTIVENESS HAVE PRECLUDED GOING AHEAD.  
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HOWEVER, THE GROWTH OF THE MARKET HERE AND THE INITIAL STEPS IN LIBERALIZING IMPORTS SUGGEST THAT THE PROPOSAL BE RE-EXAMINED, NOT NECESSARILY WITH TODAY'S MARKET IN MIND BY WITH AN EYE TO TOMORROWS'. THE CHANGES IN KOREA'S ECONOMY CLEARLY MAKE IT MORE INTERESTING FOR U.S. MANUFACTURERS. IN THE PST, LOW PRICE WENT WITH SECOND-BEST TECHNOLOGY AND KOREANS BOUGHT FROM JAPAN. THAT IS NOW CHANGING RAPIDLY WITH THE DEVELOPMENT OF SKILLED LABOR SHORTAGES. THE KOREANS WILL WANT THE BEST IN THE FUTURE AND WILL BE WILLING TO PAY FOR IT. THUS, THE USEFULLNESS OF A FULL-FLEDGED TRADE CENTER WILL BE MUCH GREATER IN THE NEXT FEW YEARS.  
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